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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the United Nations escrow (Iraq) accounts for the 12-month period ended 31 December 2006 of the biennium 2006-2007.

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Report of the Board of Auditors on the audit of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999) and 1483 (2003) for the 12-month period ended 31 December 2006 of the biennium 2006-2007

Contents

		Page
I.	Report of the Board of Auditors	4
	Summary	4
	A. Introduction	6
	1. Previous recommendations not fully implemented	6
	2. Recommendations	6
	3. Background	6
	4. Development Fund for Iraq	8
	B. Detailed findings and recommendations	8
	1. Financial position	8
	2. Activities related to the winding-up process	9
	3. United Nations system accounting standards	10
	4. Accounts and financial reporting	10
	5. Processing of authentication documents	11
	6. "Humanitarian activities in Iraq" account	12
	7. "Administrative and operational costs" account	12
	8. Liabilities for end-of-service benefits	12
	9. Ex gratia payments and write-offs of property	13
	10. United Nations Monitoring, Verification and Inspection Commission	13
	11. Independent inquiry into the oil-for-food programme	13
	12. Cases of fraud and presumptive fraud	14
	C. Acknowledgement	14
	Annex Summary of the status of implementation of recommendations for the financial period from 1 January 2004 to 31 December 2005	15
II.	Audit opinion	16
III.	Certification of the financial statements	17
IV.	Financial statements	18
	Statement I. Statement of income and expenditure and changes in reserves and fund balances for the 12-month period ended 31 December 2006 of the biennium 2006-2007	18

Statement II. Statement of assets, liabilities and reserves and fund balances for the 12-month period ended 31 December 2006 of the biennium 2006-2007 20

Statement III. Statement of cash flows for the 12-month period ended 31 December 2006 of the biennium 2006-2007 22

Notes to the financial statements 23

I. Report of the Board of Auditors

Summary

The United Nations Board of Auditors has audited the financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions relating to Iraq for the 12-month period ended 31 December 2006 of the biennium 2006-2007. These financial statements reflect the transactions covering the third year of the phase-down operations following the termination of the oil-for-food programme in November 2003 pursuant to Security Council resolution 1483 (2003).

The Board issued an unqualified opinion on the financial statements of the United Nations escrow (Iraq) accounts for the period mentioned above, as reflected in chapter II.

Implementation of previous recommendations

The Board has provided in the annex to the present chapter a summary of the status of implementation of its four recommendations for the financial period from 1 January 2004 to 31 December 2005, of which three recommendations were implemented and one was under implementation.

Financial overview

As at 31 December 2006, total cash resources amounted to $1.2 billion. This amount adequately covered the $916 million in unliquidated obligations arising from approved contracts for humanitarian supplies and oil spares for the current and prior periods. The total reserves and fund balances decreased by 53 per cent, or $352 million, from $664 million in 2004 to $312 million in 2006. The decrease was partly attributable to the fund transfers made to the Development Fund for Iraq, amounting to $185 million during the 12-month period ended 31 December 2006. A shortfall of $7.3 million in income was registered for the period.

Total income decreased by $50.5 million (41 per cent), from $123.2 million in 2004 to $72.7 million in 2006. The closure of the oil-for-food programme and the transfer of its unused funds to the Development Fund for Iraq also affected interest earnings, which had decreased by 57 per cent, or $65.4 million, from $114.1 million in 2004 to $48.7 million in 2006.

During the review, the Board noted the following:

(a) Unliquidated obligations in the amount of $227 million corresponding to 55 letters of credit had not been cancelled despite the absence of claims of delivery of goods and services;

(b) Delays in the provision of or the non-provision of authentication documents might expose the United Nations to litigation should collection cases be filed against it by affected vendors.

The Board made recommendations for the Administration to (a) reverse the obligations for letters of credit where the parties have agreed to their cancellation and (b) urge the Government of Iraq to accelerate the processing of authentication documents.

A. Introduction

1. The Board of Auditors has audited the financial statements of the United Nations escrow (Iraq) accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1546 (2004). Following the adoption of Security Council resolution 1483 (2003), the oil-for-food programme was terminated, on 21 November 2003. The Secretary-General envisaged a timetable of up to the end of 2007 to complete the liquidation of the programme.

2. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. The present report is submitted to the Secretary-General, who is invited to forward it to the President of the Security Council.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements were in accordance with the Financial Regulations and Rules and whether they presented fairly the financial position as at 31 December 2006 and results of operations and cash flows for the year then ended. The audit included a general review of the financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. The Board's observations and recommendation were discussed with the Administration, whose views have been appropriately reflected in the present report.

1. Previous recommendations not fully implemented

5. The Board reviewed the measures taken by the Administration to implement the four recommendations made in its report for the biennium ended 31 December 2005 (S/2006/673). Three of the recommendations were implemented, while one was under implementation. Details of the action taken and the comments of the Board are included in the relevant section of the present report.

2. Recommendations

6. **The Board recommends that the Administration:**

(a) **Reverse the obligations pertaining to letters of credit where the parties have agreed to their cancellation;**

(b) **Urge the Government of Iraq to accelerate the processing of authentication documents.**

3. Background

7. In 2006, the liquidation of the oil-for-food programme was in its third year following its closure in November 2003. As in the past two years, all obligations relating to contracts that had not been prioritized in accordance with Security

Council resolution 1483 (2003) had been closed, except for those that had valid letters of credit. Obligations relating to contracts that had been prioritized remained as liabilities of the oil-for-food programme. The expiry dates of the letters of credit were extended until the end of 2007. In his letters dated 8 August 2005 (S/2005/535), 17 October 2005 (S/2005/656), 19 December 2005 (S/2005/807), 10 July 2006 (S/2006/510) and 8 December 2006 (S/2008/46), the Secretary-General kept the Security Council informed of the arrangements for the liquidation of the outstanding letters of credit and the slow pace in regard to the processing of authentication documents. The Council has taken note of the matter, and in its letter of 29 January 2007 (S/2007/47) reaffirmed the importance of promptly finding a solution to the remaining issues until the final liquidation of the programme.

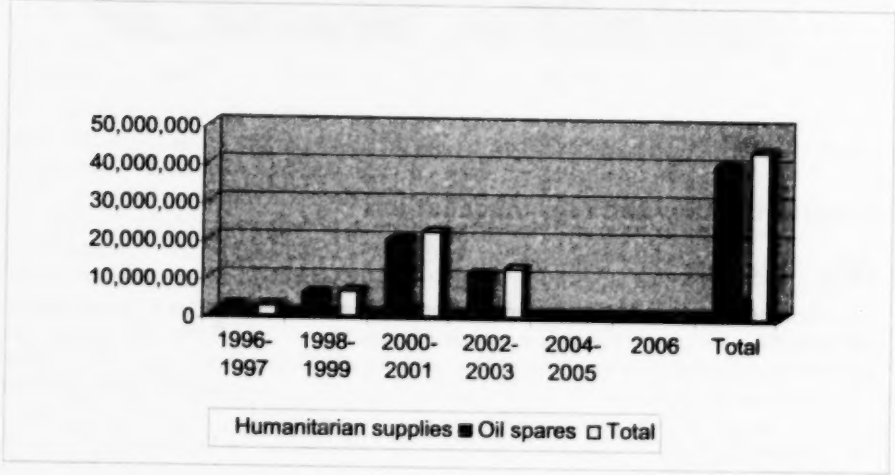
8. The Secretary-General drew the attention of the Security Council, in a letter dated 27 March 2007 (S/2007/241), to the settlement of claims from suppliers in respect of 184 letters of credit with an approximate value of $182 million, which had expired in 2004, 2005 and 2006. In spite of the suppliers' claims of delivery, the United Nations had not recommended payment pending the receipt of authentication documents from the relevant authorities of the Government of Iraq, as indicated in the Controller's letter of 2 February 2007 to the Permanent Representative of Iraq to the United Nations.

9. Statement I reflects expenditures of $65 million for humanitarian activities in Iraq in 2006. Of that amount, $60 million remained unliquidated as at 31 December 2006. From the inception of the programme up to 31 December 2006, total expenditure for humanitarian supplies and oil spares reached $44 billion, as shown in figure I. The Board's mandate does not include the audit of the Development Fund for Iraq.

Figure I

Expenditures for humanitarian supplies and oil spares

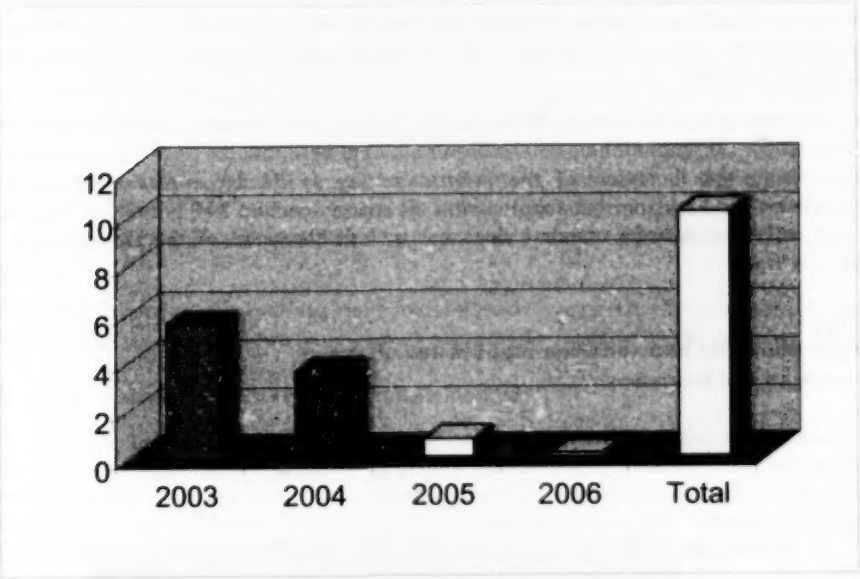
(Thousands of United States dollars)



4. Development Fund for Iraq

10. The Development Fund for Iraq was established pursuant to Security Council resolution 1483 (2003) of 22 May 2003, which mandated, inter alia, that unencumbered funds from the programme be transferred to it. In 2006, a total of $185 million was transferred to the Fund, including the $40 million from the United Nations Monitoring, Verification and Inspection Commission (UNMOVIC) reserves authorized by the President of the Security Council (S/2006/988) for the purchase of a new building and the renovation of the Permanent Mission of Iraq to the United Nations and the residence of the Permanent Representative. This brought to $10.2 billion the total amount that had been transferred to the Development Fund for Iraq up to 31 December 2006, as shown in figure II.

Figure II
Funds transferred to the Central Bank of Iraq/Development Fund of Iraq
(Billions of United States dollars)



B. Detailed findings and recommendations

1. Financial position

11. Selected account balances, of the United Nations escrow (Iraq) accounts, as reflected in statements I and II, are set out in table 1.

Table 1
Analysis of account balances
(Thousands of United States dollars)

Account	*2006*	*2004*	*Decrease*	*Percentage decrease*
Total income	72 736	123 163	50 427	41
Total expenditures	79 987	368 831	288 844	78
Interest income	48 700	114 088	65 388	57
Humanitarian supplies and oil spares	64 692	302 223	237 531	79
Cash and term deposits	1 124 850	3 040 008	1 915 158	63
Cash pool	95 551	498 926	403 375	81
Unliquidated obligations	916 670	2 891 294	1 974 624	68
Reserves and fund balances	312 103	663 928	351 825	53

12. Total income of $72.7 million decreased by 41 per cent in 2006 compared with $123.2 million in 2004. The closure of the programme and the subsequent transfer of unencumbered funds to the Development Fund for Iraq had reduced the funds, resulting consequently in a decline in interest earned. As at 31 December 2006, total cash resources had decreased to $1.2 billion from the 2004 balance of $3.5 billion. Total reserves and fund balances decreased by $352 million, from $664 million in 2004 to $312 million in 2006, mainly as a result of fund transfers to the Development Fund for Iraq.

13. Despite the decline in cash balances, the total cash resources of $1.2 billion as at 31 December 2006 were sufficient to cover the $917 million in recorded unliquidated obligations arising from approved contracts.

2. Activities related to the winding-up process

14. The Office of Programme Planning, Budget and Accounts of the Department of Management was responsible for the winding-up process, including the liquidation of advances by or reimbursement of expenditures to the implementing partners.

15. As at 31 December 2006, the Board noted outstanding receivables from the Food and Agriculture Organization of the United Nations (FAO) of $4.6 million. Those receivables represent advances to FAO for humanitarian activities in Iraq. FAO is involved in a claim dispute with a third party (a supplier) in connection with this amount, but no provision or specific disclosure had been made. In accordance with Security Council resolution 1483 (2003), as part of the liquidation process, all claims and disputes involving the United Nations or its agencies with third parties in connection with carrying out the activities of the programme are to be transferred to and become the responsibility of the Government of Iraq. In the event such transfer is not made, any liability and related fees will have to be met from the operating reserves of the programme.

3. United Nations system accounting standards

16. The Board assessed the extent to which the financial statements of the United Nations escrow (Iraq) accounts for the financial period ended 31 December 2006 conformed to the United Nations system accounting standards. The review indicated that the presentation of the financial statements was generally consistent with the standards. The financial statements were presented following the going concern assumption, although the Security Council, under its resolution 1483 (2003), had already authorized the termination of the programme. Had the liquidation basis been used, adjustments in the measurement and classification of assets and liabilities would have been needed to reflect the fact that the United Nations escrow (Iraq) accounts may be required to realize assets and extinguish liabilities outside the normal course of business.

17. **The Board recommends that the Administration prepare the financial statements of the United Nations escrow (Iraq) accounts covering the final liquidation year in accordance with the liquidation basis of accounting.**

4. Accounts and financial reporting

Letters of credit

18. Letters of credit are established by the United Nations with a bank in order to pay suppliers of goods and services for humanitarian activities in Iraq. As at 31 December 2006, the United Nations Treasury, in the designated bank's liability report, indicated that there were 310 outstanding letters of credit with an approximate value of $916 million, as shown in table 2. Accordingly, the cash collateral associated with the outstanding letters of credit remains in the United Nations escrow (Iraq) accounts until the contracted goods or services are delivered and paid for. The validity of the letters of credit issued and outstanding was extended until the end of 2007. A total of 205 of the letters of credit with an aggregate value of $534 million expired in 2006.

Table 2
Bank liability report as at 31 December 2006

Original years of expiration	*Number of letters of credit*	*Value (United States dollars)*
2004	51	48 671 518
2005	21	91 980 415
2006	205	534 030 163
2007	33	240 971 870
Total	**310**	**915 653 966**

Unliquidated obligations

19. The designated bank is authorized to cancel the liabilities and release the corresponding collateral when no deliveries are reported as pending and authentication documents have been submitted to the bank. Letters of credit that have expired or have been cancelled earlier are reinstated if deliveries had in fact been made.

20. As stated in the attachment to the letter by the Secretary-General to the President of the Security Council (S/2007/241) on the meeting between the

Secretariat and the Iraqi ministries, held on 6 March 2007, out of the 310 letters of credit outstanding, only 184, with an aggregate value of $182 million, had existing claims of delivery; 116 letters of credit, with an aggregate value of $468.5 million, had no corresponding claims (see table 3). No agreement was reached by the two parties in respect of 10 letters of credit valued at $84 million.

Table 3
Letters of credit with no claim of delivery of goods and services

	Number	*Value (United States dollars)*
Cancellation[a]	55	226 977 426
Extension[a]	36	155 861 831
No change[a]	25	85 624 290
Total	**116**	**468 463 547**

[a] At the request of the Government of Iraq.

21. The Administration commented that the obligations pertaining to 61 letters of credit with an aggregate value of $241 million were considered valid and likely to lead to future payments to vendors in the light of consultations with the concerned Iraqi ministries. It further commented that while it had paid due regard to requests by the Government of Iraq to extend some letters of credit to avoid disrupting reconstruction activities, such extensions were granted with the full understanding and approval of the Security Council. The Board noted that the Administration, during its meeting with representatives of the Government of Iraq, had indicated that already two sets of extensions had been submitted to and approved by the Security Council, in 2005 and 2006. In that meeting, the Administration emphasized that in view of the need to immediately close the programme, it would not be possible for the Secretariat to support further requests for extension beyond 2007.

22. In the same letter of the Secretary-General, it was also stated that of the 116 letters of credit that had no claims of delivery, the United Nations Treasury would have recommended to the designated bank the cancellation of 55 letters of credit with a total value of $227 million and the transfer of funds held in respect of those letters of credit, to the Development Fund for Iraq in March 2007. However, those cancellations did not occur, as the cancellation request was still with the Security Council as at 31 March 2007.

23. **The Board recommends that the Administration reverse obligations for letters of credit against which no procurement has taken place where the parties have agreed on their cancellation.**

5. Processing of authentication documents

24. After the closure of the programme in November 2003, the Secretary-General expressed his concern over the chronic problem of the slow provision or non-provision of authentication documents, as set out in his letters to the Security Council between August 2005 and December 2006. In addition, the Secretary-General informed the Council of allegations that authentication documents had been improperly withheld by authorities in Iraq, and payments have been requested from vendors as a condition for authentication.

25. The consequence of delays in the provision of or the non-provision of authentication documents was that the United Nations might expose itself to litigation should collection cases be filed against it by vendors who have already complied with their contractual obligations but have not been paid.

26. **The Board recommends that the Administration, as part of the liquidation, urge the Government of Iraq to accelerate the processing of authentication documents to ensure that vendors are paid promptly.**

6. "Humanitarian activities in Iraq" account

27. In a letter dated 10 July 2006 (S/2006/510), the Secretary-General informed the Security Council that until the issues of claims from suppliers were resolved, an amount of $187 million would be held in a reserve for any unanticipated claims from suppliers, also recalling that the United Nations had no indemnification from the Government of Iraq. The Council took note of the proposed arrangements in a letter dated 14 August 2006 (S/2006/646), and an operating reserve of $187 million has accordingly been established under the "Humanitarian activities in Iraq" account.

7. "Administrative and operational costs" account

28. An operating reserve of $21.1 million was established as at 31 December 2005 under the "Administrative and operational costs" account to meet the expected costs of the Independent Inquiry Committee and the administrative costs of the United Nations escrow (Iraq) accounts until the programme is fully liquidated. Disbursements amounting to $4.1 million were recorded during the period from 1 January to 31 December 2006, leaving the reserve at a level of $17 million at year's end.

8. Liabilities for end-of-service benefits

29. Eligible staff members are entitled to be paid for any unused vacation days up to a maximum of 60 days and repatriation benefits based on the number of years of service. Effective with the 12-month period ended 31 December 2006, both of these liabilities were recognized in the financial statements. These are reflected as adjustments to reserves and fund balances in statement I, and the corresponding amount is shown as a liability in statement II. Previously, such liabilities were disclosed only in the notes to the financial statements. The liabilities for unused vacation days and repatriation benefits were estimated to be $0.8 million and $0.9 million respectively, as shown in table 4.

Table 4
End-of-service benefits
(Thousands of United States dollars)

Fund	*Leave*	*Repatriation*
Administrative and operational costs	151	196
Monitoring, verification and inspection	657	681
Other activities	9	—
Total	**817**	**877**

9. Ex gratia payments and write-offs of property

30. In accordance with financial rules 105.12, 106.8 and 106.9, the Administration reported no ex gratia payments or write-offs of cash, receivables or non-expendable property.

10. United Nations Monitoring, Verification and Inspection Commission

31. In paragraph 22 of its resolution 1546 (2004), the Security Council reaffirmed its intention to revisit the mandate of UNMOVIC. The assets of UNMOVIC as at 31 December 2006 included $70 million in the cash pool, which represented 73 per cent of the total cash pool of the United Nations escrow (Iraq) accounts of $95.6 million. UNMOVIC incurred some $11 million in administrative expenses in 2006. There was a decrease of $20.7 million compared with $31.7 million in 2005. Furthermore, UNMOVIC had $66.4 million in total reserves and fund balances as at 31 December 2006.

32. The Board noted that UNMOVIC Headquarters Professional staff totalled 34, compared with 67 Professional and General Service staff in 2005. The Board further observed that the UNMOVIC Cyprus field office space had been reduced by 50 per cent, resulting in the decline in the rental cost of premises. While reductions in expenditure were noted, the Iraqi Government expressed reservations as to the practical benefits of UNMOVIC activities to Iraq or to the United Nations in a letter to the Secretary-General dated 14 November 2006 (S/2006/987, annex).

33. The existence of UNMOVIC might continue, as reported in the twenty-eighth quarterly report to the Security Council (S/2007/106), on its activities, since the work of the Organization was continuing in the light of the changed situation in Iraq. UNMOVIC continued to develop an updated system for the future inspection and verification of missiles and other unmanned aerial delivery vehicles, drawing on the Commission's experience in this area. This is being included in the Commission's ongoing training programme for its international roster of inspectors.

34. **The Board noted that the Security Council had initiated consultations on the termination of the mandate of UNMOVIC.**

11. Independent inquiry into the oil-for-food programme

35. In April 2004, the Secretary-General appointed a high-level Independent Inquiry Committee to investigate the administration and management of the oil-for-food programme. Although the work of the Committee was substantially completed in 2005, its term was extended to assist the duly authorized law enforcement and regulatory agencies in cases arising from its work.

36. On 1 January 2007, the Committee wound up its operation and at the same time the Office of the Independent Inquiry Committee was established for an interim period of two years as an advisory panel on issues related to the programme. Its costs are met from funds for Administrative and Operational costs of the programme. Expenditure during the 12-month period biennium ended 31 December 2006 amounted to $2.1 million, and is described in a note to the financial statements.

12. Cases of fraud and presumptive fraud

37. The Administration advised the Board that in two cases, vendors had reported that they had not been paid for goods supplied to Iraq. They cited illegal withholding by the Government of Iraq of the authentication documents necessary to effect payments against the letters of credit. The Administration also advised the Board that other than those two cases, there were no further known cases of fraud or presumptive fraud relating to the activities of the programme.

38. **The Board is concerned about these allegations and invites the Administration to keep the Board informed of the outcome of any investigation on the matter.**

C. Acknowledgment

39. The Board wishes to express its appreciation for the cooperation and assistance extended to the auditors by the Secretary-General, the Under-Secretary-General for Management, the Acting Executive Chairman of the United Nations Monitoring, Verification and Inspection Commission and their staff.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Chairman, United Nations Board of Auditors

(*Signed*) Guillermo N. **Carague**
Chairman, Commission on Audit, Republic of the Philippines
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

29 June 2007

Note: The Members of the Board have signed only the original English version of this report.

Annex

Summary of the status of implementation of recommendations for the financial period from 1 January 2004 to 31 December 2005

Recommendation	*Year first reported*	*Implemented*[a]	*Under implementation*[a]	*Not implemented*	*Total*	*Reference paragraph in present report*
1. Strongly urge the Security Council and the Government of Iraq to finally resolve the issue of contracts with expired letters of credit.	2002-2003	—	para. 31 (a)	—	1	paras. 24-26
2. Continue to coordinate closely with the designated bank for the release of the cash collateral associated with each expired letter of credit in order to adjust the unliquidated obligations at the time the cash collateral is released by the bank.	2002-2003	—	para. 31 (b)	—	1	paras. 18-23
3. Initiate the evaluation of the UNMOVIC mandate in the light of current events and again invite the Security Council to steer the final course of action to be taken.	2004-2005	para. 46	—	—	1	paras. 31-34
4. Facilitate completion of the final inventory necessary to update its records of non-expendable property lost or stolen.	2004-2005	para. 51	—	—	1	—
Subtotal, number		**3**	**1**		**4**	
Subtotal, per cent		**75**	**25**		**100**	

[a] See S/2006/673.

II. Audit opinion

We have audited the accompanying financial statements of the United Nations escrow (Iraq) accounts for the 12-month period ended 31 December 2006 of the biennium 2006-2007 comprising statements I to III and the supporting notes to the financial statements. The financial statements are the responsibility of the Secretary-General. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Secretary-General, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position as at 31 December 2006, and the results of its operations and its cash flows for the period then ended, in accordance with the United Nations system accounting standards.

Furthermore, in our opinion, the transactions of the United Nations escrow (Iraq) accounts that have come to our notice and which we have tested as part of our audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules, we have also issued a long-form report on our audit of the financial statements of the United Nations escrow (Iraq) accounts.

(*Signed*) Philippe **Séguin**
First President of the Court of Accounts of France
Chairman, United Nations Board of Auditors

(*Signed*) Guillermo N. **Carague**
Chairman, Commission on Audit, Republic of the Philippines
(Lead Auditor)

(*Signed*) Terence **Nombembe**
Auditor-General of the Republic of South Africa

29 June 2007

Note: The Members of the Board have signed only the original English version of this opinion.

III. Certification of the financial statements

1. The financial statements prepared pursuant to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1546 (2004) for the 12-month period ended 31 December 2006 of the biennium 2006-2007 have been prepared in accordance with financial rule 106.10.

2. The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. The notes provide additional information and clarifications for the financial activities related to Security Council resolutions 687 (1991), 706 (1991), 778 (1992), 986 (1995), 1284 (1999), 1483 (2003) and 1546 (2004) undertaken by the Organization during the period covered by these statements, for which the Secretary-General has administrative responsibility.

3. I certify that the appended financial statements of the United Nations escrow (Iraq) accounts, numbered I to III, are correct.

(*Signed*) Warren **Sach**
Assistant Secretary-General, Controller

30 March 2007

IV. Financial statements

Statement I

United Nations escrow accounts established under the provisions of Security Council resolutions relating to Iraq[a]

Statement of income and expenditure and changes in reserves and fund balances for the 12-month period ended 31 December 2006 of the biennium 2006-2007

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999)[b]	Resolutions 687 (1991), 706 (1991)[c]		
	Humanitarian activities in Iraq	**Administrative and operational costs**	**Monitoring, verification and inspection**	**Other activities**	**Total 2006**	**Total 2004**
Income						
Funding from operating reserves[d]	—	4 095	—	—	4 095	—
Interest income	42 434	1 319	4 947	—	48 700	114 088
Miscellaneous income	6	1 092	21	—	1 119	9 040
Currency exchange adjustments[e]	18 812	10	—	—	18 822	35
Total income	**61 252**	**6 516**	**4 968**	**—**	**72 736**	**123 163**
Expenditure						
Purchase of humanitarian supplies[f]	49 103	—	—	—	49 103	218 823
Purchase of spare parts[g]	15 589	—	—	—	15 589	83 400
Inter-agency operational expenses	—	—	—	—	—	2 497
Administrative expenses	—	2 061	10 981	186	13 228	28 926
Independent Inquiry Committee expenses[h]	—	2 067	—	—	2 067	11 951
Currency exchange adjustments[e]	—	—	—	—	—	23 234
Total expenditure	**64 692**	**4 128**	**10 981**	**186**	**79 987**	**368 831**
Excess (shortfall) of income over expenditure	**(3 440)**	**2 388**	**(6 013)**	**(186)**	**(7 251)**	**(245 668)**
Prior-period adjustments	—	—	—	(9)	(9)	(8)
Net excess (shortfall) of income over expenditure	**(3 440)**	**2 388**	**(6 013)**	**(195)**	**(7 260)**	**(245 676)**

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999)[b]	Resolutions 687 (1991), 706 (1991)[c]		
	Humanitarian activities in Iraq	**Administrative and operational costs**	**Monitoring, verification and inspection**	**Other activities**	**Total 2006**	**Total 2004**
Savings on or cancellation of prior-period obligations	232 964	69	270	1	233 304	1 272 228
Transfers (to) from other organizations[i]	(145 000)	—	(40 000)	—	(185 000)	(3 628 000)
Transfers to the United Nations[j]	—	—	(417)	—	(417)	—
Transfer from operating reserves[d]	—	(4 095)	—	—	(4 095)	—
Other adjustments to fund balances[k]	—	(347)	(1 338)	(9)	(1 694)	—
Reserves and fund balances, beginning of period	135 781	27 173	113 928	383	277 265	3 265 376
Reserves and fund balances, end of period	**220 305**	**25 188**	**66 430**	**180**	**312 103**	**663 928**

[a] There were no activities relating to pipeline tariff charges or assets transfers and contributions during this period; see also notes 1 and 3.
[b] Refers to the United Nations Monitoring, Verification and Inspection Commission; see note 3.
[c] See note 3.
[d] See note 6.
[e] Represents currency exchange fluctuations between the euro and the United States dollar and other currencies.
[f] Expenditure incurred during the biennium 2006-2007 for humanitarian supplies relates to adjustments and reinstatements of contracts entered into in previous years. The figure includes unliquidated obligations of $45,926,503.
[g] Expenditure incurred during the biennium 2006-2007 for spare parts relates to adjustments and reinstatements of contracts entered into in previous years. The figure includes unliquidated obligations of $14,305,495.
[h] See note 4.
[i] Represents transfers to the Development Fund for Iraq, held by the Central Bank of Iraq pursuant to Security Council resolution 1483 (2003); see note 8 (e).
[j] Represents transfer to the United Nations for payment of outstanding assessed contributions of the Government of Iraq pursuant to the letter dated 10 February 2006 (S/2006/94) from the President of the Security Council to the Secretary-General.
[k] Represents accrued liabilities for unused vacation days and for repatriation benefits. These were previously disclosed in the notes and are now reflected in the financial statements as liabilities; see note 5.

The accompanying notes are an integral part of the financial statements.

Statement II

United Nations escrow accounts established under the provisions of Security Council resolutions relating to Iraq[a]

Statement of assets, liabilities and reserves and fund balances for the 12-month period ended 31 December 2006 of the biennium 2006-2007

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999)	Resolutions 687 (1991), 706 (1991)		
	Humanitarian activities in Iraq	**Administrative and operational costs**	**Monitoring, verification and inspection**	**Other activities**	**Total 2006**	**Total 2004**
Assets						
Cash and term deposits	1 124 762	45	43	—	1 124 850	3 040 008
Cash pool	263[b]	25 727[c]	69 561[d]	—	95 551	498 926
Accounts receivable						
Inter-fund balances receivable[e]	—	—	—	184	184	654
Inter-agency accounts receivable[f]	4 618	41	217	—	4 876	11 467
Other accounts receivable	7 398	118	352	29	7 897	5 596
Inter-office transactions pending processing	—	—	—	—	—	184
Deferred charges	—	23	15	—	38	1 660
Total assets	**1 137 041**	**25 954**	**70 188**	**213**	**1 233 396**	**3 558 495**
Liabilities						
Unliquidated obligations — current year	60 232[g]	33	148	2	60 415	252 372
Unliquidated obligations — prior years	856 255[h]	—	—	—	856 255	2 638 922
Accounts payable						
Inter-fund balances payable[e]	249	199	1 563	—	2 011	1 645
Inter-agency accounts payable[i]	—	—	24	—	24	430
Other accounts payable	—	187	685	22	894	1 192
Inter-office transactions pending processing	—	—	—	—	—	6
End-of-service liabilities[j]	—	347	1 338	9	1 694	—
Total liabilities	**916 736**	**766**	**3 758**	**33**	**921 293**	**2 894 567**
Reserves and fund balances						
Operating reserves[k]	187 000	17 037	—	—	204 037	48 000
Cumulative surplus	33 305	8 151	66 430	180	108 066	615 928
Total reserves and fund balances	**220 305**	**25 188**	**66 430**	**180**	**312 103**	**663 928**
Total liabilities and reserves and fund balances	**1 137 041**	**25 954**	**70 188**	**213**	**1 233 396**	**3 558 495**

(Footnotes on following page)

(Footnotes to Statement II)

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[a] There were no activities relating to pipeline tariff charges or assets transfers and contributions during this period; see also notes 1 and 3.

[b] Represents the share of the United Nations Headquarters cash pool for the "Humanitarian activities in Iraq" account, comprising cash and term deposits of $88,340, short-term investments of $129,341 (market value $129,341), long-term investments of $42,117 (market value $41,863) and accrued interest receivable of $2,730.

[c] Represents the share of the United Nations Headquarters cash pool for the "Administrative and operational costs" account, comprising cash and term deposits of $8,656,919, short-term investments of $12,674,848 (market value $12,674,848), long-term investments of $4,127,328 (market value $4,102,450) and accrued interest receivable of $267,524.

[d] Represents the share of the United Nations Headquarters cash pool for the "Monitoring, verification and inspection" account, comprising cash and term deposits of $23,407,025, short-term investments of $34,270,910 (market value $34,270,910), long-term investments of $11,159,682 (market value $11,092,416) and accrued interest receivable of $723,346.

[e] See note 2 (k) (iv).

[f] Represents the funds advanced to the United Nations agencies for the implementation of humanitarian activities.

[g] Unliquidated obligations incurred during the biennium 2006-2007 for humanitarian supplies and spare parts relates to adjustments and reinstatements of contracts entered into in previous years.

[h] See note 9.

[i] Represents amounts payable to United Nations agencies for expenditures in excess of amounts advanced.

[j] Represents accrued liabilities for unused vacation days and for repatriation benefits. These were previously disclosed in the notes and are now reflected in the financial statements as liabilities; see note 5.

[k] See note 6.

The accompanying notes are an integral part of the financial statements.

Statement III

United Nations escrow accounts established under the provisions of Security Council resolutions relating to Iraq[a]

Statement of cash flows
for the 12-month period ended 31 December 2006 of the biennium 2006-2007

(Thousands of United States dollars)

	Resolutions 986 (1995) and 1483 (2003)		Resolutions 687 (1991), 706 (1991), 1284 (1999)	Resolutions 687 (1991), 706 (1991)		
	Humanitarian activities in Iraq	**Administrative and operational costs**	**Monitoring, verification and inspection**	**Other activities**	**Total 2006**	**Total 2004**
Cash flows from operating activities						
Net excess (shortfall) of income over expenditure (statement I)	(3 440)	2 388	(6 013)	(195)	(7 260)	(245 676)
(Increase) decrease in inter-fund balances receivable	—	—	—	183	183	2 023
(Increase) decrease in inter-agency accounts receivable	218	80	138	—	436	59 113
(Increase) decrease in other accounts receivable	(5 324)	85	59	(1)	(5 181)	5 777
(Increase) decrease in other assets	—	—	—	—	—	1
(Increase) decrease in deferred charges	—	(8)	10	—	2	1 589
Increase (decrease) in unliquidated obligations	(361 231)	(1 625)	(202)	(1)	(363 059)	(4 880 777)
Increase (decrease) in inter-fund accounts payable	35	(10 648)	1 096	—	(9 517)	(4 106)
Increase (decrease) in inter-agency accounts payable	—	—	(66)	—	(66)	(52 457)
Increase (decrease) in other accounts payable	—	(126)	(66)	13	(179)	(3 400)
Increase (decrease) in inter-office transactions pending processing	—	(1)	—	—	(1)	—
Increase (decrease) in end-of-service liabilities	—	347	1 338	9	1 694	—
Less: interest income	(42 434)	(1 319)	(4 947)	—	(48 700)	(114 088)
Net cash from operating activities	**(412 176)**	**(10 827)**	**(8 653)**	**8**	**(431 648)**	**(5 232 001)**
Cash flows from investing activities						
(Increase) decrease in cash pool	16 891	13 883	45 204	—	75 978	942 045
Plus: interest income	42 434	1 319	4 947	—	48 700	114 088
Net cash from investing activities	**59 325**	**15 202**	**50 151**	**—**	**124 678**	**1 056 133**
Cash flows from financing activities						
Savings on or cancellation of prior-period obligations	232 964	69	270	1	233 304	1 272 228
Other adjustments to fund balances	—	(347)	(1 338)	(9)	(1 694)	—
Transfers (to) from other organizations	(145 000)	—	(40 000)	—	(185 000)	(3 628 000)
Transfers to the United Nations	—	—	(417)	—	(417)	—
Transfer from operating reserves	—	(4 095)	—	—	(4 095)	—
Net cash from financing activities	**87 964**	**(4 373)**	**(41 485)**	**(8)**	**42 098**	**(2 355 772)**
Net increase (decrease) in cash and term deposits	**(264 887)**	**2**	**13**	**—**	**(264 872)**	**(6 531 640)**
Cash and term deposits, beginning of period	**1 389 649**	**43**	**30**	**—**	**1 389 722**	**9 571 648**
Cash and term deposits, end of period	**1 124 762**	**45**	**43**	**—**	**1 124 850**	**3 040 008**

[a] There were no activities relating to pipeline tariff charges or assets transfers and contributions during this period; see also notes 1 and 3.

The accompanying notes are an integral part of the financial statements.

Notes to the financial statements

Note 1
United Nations escrow account established under the provisions of Security Council resolution 986 (1995) (statements I, II and III)

(a) An escrow account to be administered by the Secretary-General was established in 1996 in order to receive the proceeds from the sale of Iraqi oil approved by the Security Council in resolution 986 (1995). In paragraph 1 of that resolution the Council authorized States to permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of $1 billion every 90 days. In paragraph 3 of that resolution the Council decided that the provision should remain in force for 180 days.

(b) The authorization given in paragraph 2 of resolution 986 (1995) permitted Turkey to import petroleum and petroleum products originating in Iraq, sufficient to meet the pipeline tariff charges for the transport of these products through the Kirkuk-Yumurtalik pipeline in Turkey, after the deduction of 30 per cent for the Compensation Fund. In resolution 1330 (2000), the Security Council revised this deduction to 25 per cent. Owing to the cessation of the oil-for-food programme (the programme), pipeline tariff charges are no longer incurred.

(c) The provision of resolution 986 (1995) authorizing sales of Iraqi oil not exceeding a total of $1 billion every 90 days remained in force until 30 May 1998, in accordance with Security Council resolutions 1111 (1997), 1129 (1997), 1143 (1997) and resolution 1158 (1998).

(d) The Security Council, in paragraph 2 of resolution 1153 (1998), which took effect on 1 June 1998, decided that the authorization given to States in paragraph 1 of resolution 986 (1995) should permit the import of petroleum and petroleum products originating in Iraq, including financial and other essential transactions directly relating thereto, sufficient to produce a sum not exceeding a total of $5.256 billion, in the 180-day period referred to in paragraph 1 of resolution 1153 (1998). This provision remained in force in accordance with resolutions 1210 (1998), 1242 (1999) and 1281 (1999).

(e) In resolution 1284 (1999) of 17 December 1999, the Security Council lifted the dollar cap and authorized sales of Iraqi oil of any volume during the 180-day mandate period. This provision remained in force in accordance with resolutions 1302 (2000), 1330 (2000), 1352 (2001), which extended the provisions of resolution 1330 (2000) for 30 days and 1360 (2001), which extended the mandate period for 150 days, 1382 (2001), 1409 (2002), 1443 (2002), which extended the provisions of resolution 1409 (2002) until 4 December 2002, and 1447 (2002), which extended it to 3 June 2003. The final sale of oil under the programme was for shipment made on 20 March 2003.

(f) The Security Council, in paragraphs 1 and 3 of resolution 1175 (1998), authorized States to permit the export to Iraq of the necessary parts and equipment ("spare parts") to enable Iraq to increase the export of petroleum and petroleum products, in quantities sufficient to produce the sum established in paragraph 2 of resolution 1153 (1998), and decided that the funds in the escrow account produced pursuant to resolution 1153 (1998) up to a total of $300 million might be used to

meet any reasonable expenses, other than expenses payable in Iraq, which followed directly from contracts approved by the Committee established by resolution 661 (1990). Resolutions 1293 (2000) and 1302 (2000) established that up to $600 million might be used to permit States to export to Iraq the necessary parts and equipment to enable Iraq to increase the export of petroleum and petroleum products. Resolutions 1330 (2000), 1352 (2001), 1360 (2001), 1382 (2001), 1409 (2002) and 1447 (2002) retained the $600 million limit.

(g) Security Council resolution 1330 (2000) allowed for funds of up to €600 million from the escrow account to be used for the cost of installation and maintenance, including training services, of spare parts and equipment relating to the oil industry.

(h) In its resolution 1472 (2003) of 28 March 2003, the Security Council recognized that in view of the exceptional circumstances prevailing in Iraq, on an interim and exceptional basis, technical and temporary adjustments should be made to the programme, and authorized the Secretary-General to make such changes for a period of 45 days.

(i) In its resolution 1476 (2003), of 24 April 2003, the Security Council decided that the provisions contained in paragraph 4 of resolution 1472 (2003) should remain in force until 3 June 2003 and might be subject to further renewal by the Council.

(j) In its resolution 1483 (2003), of 22 May 2003 the Security Council requested the Secretary-General to terminate the programme within six months and to transfer responsibility for the administration of any remaining activity to the Coalition Provisional Authority (the Authority). The Council also requested the consolidation of the accounts established pursuant to paragraphs 8 (a) (relating to 15 governorates of central and southern Iraq) and 8 (b) (relating to three governorates of northern Iraq) of resolution 986 (1995).

(k) Sale of Iraqi oil is recognized as revenue in the fund for humanitarian activities in Iraq based on the bill of lading date and the total value of oil loaded as stipulated in the commercial invoice issued by the State Oil Marketing Organization. The proceeds from the sale of Iraqi oil are allocated, upon receipt of deposits, to other accounts established pursuant to paragraph 8 of resolution 986 (1995). No oil sales have been recorded since 20 March 2003.

(l) The funds from the sale of Iraqi oil pursuant to the authorization given in paragraph 1 of resolution 986 (1995) are to be used to meet the humanitarian needs of the Iraqi people and for the other purposes set out in paragraph 8 of resolution 986 (1995). Resolution 1409 (2002) permits the sale or supply of any commodities or products other than those referred to in paragraph 24 of resolution 687 (1991) as it relates to military commodities and products, or military-related commodities or products covered by the Goods Review List (see S/2002/515)and the amendments thereto contained in annex A to resolution 1454 (2002). The percentages used in allocating the oil sale proceeds were determined as follows:

(i) 53.034 per cent to finance the export to Iraq of medicines, health supplies, food, and materials and supplies for essential civilian needs. In follow-up to resolution 1302 (2000), this was increased to 54.034 per cent, and to resolution 1330 (2000) further increased to 59.034 per cent, less the payment referred to in (vi) below;

(ii) 13 per cent to complement the distribution by the Government of Iraq of imported goods by providing funds to the United Nations Inter-Agency Humanitarian Programme operating in the three northern governorates of Iraq, Arbil, Dihouk and Suleimaniyeh;

(iii) 2.215 per cent to meet the operational and administrative costs to the United Nations;

(iv) 30 per cent allocated to the Compensation Fund established pursuant to Security Council resolution 705 (1991). Pursuant to resolution 1330 (2000) this percentage was decreased to 25 per cent;

(v) 0.751 per cent allocated to the United Nations Monitoring, Verification and Inspection Commission established pursuant to Security Council resolution 1284 (1999), which replaced the special commissions established pursuant to Security Council resolution 687 (1991), to meet operating costs;

(vi) A maximum of $10 million every 90-day period to be allocated to the escrow account established pursuant to Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992). In resolution 1284 (1999), the Council decided to suspend payments to this escrow account for an initial period of six months from 17 December 1999. In resolution 1302 (2000) this suspension was extended for a further 180-day period and the allocation transferred to (i) above. In resolution 1330 (2000) the allocation of a maximum of $10 million every 90 days was reinstated from 6 December 2000.

(m) Notwithstanding the periods for the sale of Iraqi oil as authorized by the Security Council, financial statements I, II and III (United Nations escrow accounts) are prepared every six months.

(n) Included in financial statements I, II and III (United Nations escrow accounts) are details relating to humanitarian activities, related operational and administrative costs, and pipeline tariff charges that are undertaken under the provisions of Security Council resolution 986 (1995). From the beginning of the programme in December 1996 to mid-2000, implementation costs on actual expenditures incurred by agencies for activities associated with the purchase of humanitarian goods for northern Iraq were charged to the "Humanitarian activities in Iraq" account, and programme support costs on actual expenditures for the administrative and operational costs were charged to the "Administrative and operational costs" account. In mid-2000, following recommendations of the Board of Auditors, and taking into account the increased level of funds available in the "Administrative and operational costs" account, the Secretariat decided to prospectively charge all implementation and programme support costs to the "Administrative and operational costs" account. In mid-2002, the Secretariat reverted to the earlier treatment, whereby direct costs of implementing the programme in northern Iraq were charged to the "Humanitarian activities in Iraq" account. This decision reflected the need to harmonize treatment, whether the work was done by an agency itself or contracted out. In 2003, when agencies began implementing various aspects of the programme in southern/central Iraq, those implementation costs were also charged to the "Humanitarian activities in Iraq" account, in line with the 2002 decision.

(o) The financial statements of the Compensation Fund (see paragraph (l), item (iv), above) are reported on in a separate volume of the United Nations financial statements.

(p) Expenditure incurred during the biennium 2006-2007 for humanitarian supplies and spare parts relates to adjustments and reinstatements of contracts entered into in previous years.

Note 2
Summary of significant accounting and financial reporting policies of the United Nations

(a) The accounts of the United Nations are maintained in accordance with the Financial Regulations and Rules of the United Nations adopted by the General Assembly, the rules formulated by the Secretary-General as required under the regulations, and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations system accounting standards adopted by the United Nations System Chief Executives Board for Coordination. The Organization follows International Accounting Standard 1, "Presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by the United Nations System Chief Executives Board for Coordination, as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Organization's accounts are maintained on a fund accounting basis. Separate funds for general or special purposes may be established by the General Assembly, the Security Council, or the Secretary-General. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of the Organization is a biennium and consists of two consecutive calendar years for all funds other than peacekeeping accounts, which are reported on a fiscal year basis covering the period 1 July-30 June.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rates of exchange in effect at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the Organization's rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The cash flow summary statement is based on the indirect method of cash flows as referred to in the United Nations system accounting standards.

(h) The Organization's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-Level Committee on Management.

(i) Income:

(i) Voluntary contributions from Member States or other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times within the current financial period. Voluntary contributions made in the form of services and supplies that are acceptable to the Secretary-General are credited to income or noted in the financial statements;

(ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for transfer to and disbursement from another fund;

(iv) Income for services rendered include amounts charged for salaries of staff members and other costs which are attributable to providing technical and administrative support to other organizations;

(v) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments, and investment income earned in the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income. Investment income and costs associated with the operation of investments in the cash pool are allocated to participating funds. Interest income is available for allotment purposes on a six-monthly basis;

(vi) Net gains or losses on currency fluctuations other than for the current year's obligations are accumulated on a six-monthly basis. Effective 1 January 2002, the net amount is recognized as income or expenditure every six months in the financial statements;

(vii) Miscellaneous income includes income from the rental of premises, the sale of used or surplus property, refunds of expenditures charged to prior periods, settlements of insurance claims, monies accepted for which no purpose was specified and other sundry income;

(viii) Income relating to future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in paragraph (l), item (iii), below.

(j) Expenditure:

(i) Expenditures are incurred against authorized appropriations or commitment authorities. Total expenditures reported include unliquidated obligations and disbursements. Expenditures also include currency exchange adjustments arising from the evaluation of current-period obligations;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period and are recorded as deferred charges as referred to in paragraph (k), item (vi), below.

(k) Assets:

(i) Cash and term deposits represent funds in demand deposit accounts and interest bearing bank deposits;

(ii) Investments include marketable securities and other negotiable instruments acquired by the Organization to produce income. Short-term investments are stated at the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus/minus any unamortized premium/discount. The market value of investments is disclosed in the footnotes to the financial statements;

(iii) Cash pools comprise participating funds' share of the cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the cash pools. The investments in the cash pools are similar in nature. Short-term investments are stated at the lower of cost or market value; long-term investments are stated at cost. Cost is defined as the nominal value plus or minus any unamortized premium or discount. The share in cash pools is reported separately in each of the participating fund's statement and its composition and the market value of its investments are disclosed in footnotes in the individual statements;

(iv) Inter-fund balances reflect transactions between funds and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with other escrow accounts and with the United Nations General Fund. Inter-fund balances are settled periodically, depending upon availability of cash resources;

(v) Provision for delays in the collection of receivable balances is not made;

(vi) Deferred charges normally comprise expenditure items that are not properly chargeable in the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead-times are required for delivery;

(vii) For the purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(viii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Organization. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in the notes to the financial statements.

(l) Liabilities and reserves and fund balances:

(i) Operating reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes income received but not yet earned;

(iv) Commitments of the Organization relating to prior, current and future financial periods are shown as unliquidated obligations. Effective 1 January 2000, unliquidated obligations for the escrow account for humanitarian activities in Iraq remain valid until completion of the project. All other obligations continue to remain valid for 12 months following the end of the biennium to which they relate;

(v) Accrued liabilities for end-of-service benefits, comprising unused vacation days and repatriation benefits, which were previously disclosed in the notes to the financial statements are, effective the 12-month period ended 31 December 2006, included as liabilities in the statement of assets, liabilities and reserves and fund balances. The change in presentation is made in order to recognize such liabilities when incurred;

(vi) Contingent liabilities, if any, are disclosed in the notes to the financial statements;

(vii) The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The United Nations Joint Staff Pension Fund is a funded defined benefit plan.

The financial obligation of the Organization to the Fund consists of its mandated contribution at the rate established by the General Assembly, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the United Nations Joint Staff Pension Fund. Such deficiency payments are only payable if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. As at the date of the current financial statement, the General Assembly has not invoked this provision.

Note 3
United Nations escrow accounts established under the provisions of Security Council resolutions 687 (1991), 706 (1991), 778 (1992) and 1284 (1999) (statements I, II and III)

(a) Included in financial statements I, II and III are the escrow accounts established pursuant to Security Council resolutions 706 (1991) and 712 (1991) for the payments envisaged under paragraph 6 of resolution 778 (1992), and the special account established pursuant to Security Council resolutions 687 (1991), 706 (1991) and 1284 (1999). The escrow account established under Security Council resolutions 706 (1991), 712 (1991) and 778 (1992) returned all funds in 2003. As a result there are no further transactions to report relating to this escrow account.

(b) The escrow account administered by the Secretary-General under Security Council resolutions 706 (1991) and 712 (1991) provided for Iraqi funds from the sale of oil to be used for payment by the United Nations Compensation Commission, the full costs of carrying out the tasks authorized by section C of resolution 687 (1991), the full costs incurred by the United Nations in facilitating the return of all Kuwaiti property seized by Iraq, half the costs of the Boundary Commission, and the cost to the United Nations of implementing resolution 706 (1991) and of other necessary humanitarian activities in Iraq:

(i) With the refusal of Iraq to sell oil under the provisions of Security Council resolutions 706 (1991) and 712 (1991), the Security Council adopted resolution 778 (1992) on 2 October 1992 as an alternate means of providing funds for the purposes specified. States in which there were petroleum products owned by Iraq or States in which there were funds of the Government of Iraq that represented the proceeds of sale of Iraqi petroleum, paid for by the purchaser after 6 August 1990, were required to transfer some or all of these funds to the escrow account. Additionally, in resolution 778 (1992) the Council urged States to contribute funds from other sources to the escrow account. All such funds transferred or contributed to the escrow account under the provisions of resolution 778 (1992) were to be transferred back to the accounts of States from which funds were provided, together with applicable interest, at such time when oil exports had taken place pursuant to the system provided for in resolutions 706 (1991) and 712 (1991) and the escrow account had received funds from the proceeds of sale. Iraqi oil exports began in December 1996 and in January 1997 the escrow account started receiving funds from the proceeds of sale that were transferred back to the accounts of States that had provided the original funds to the escrow account;

(ii) In December 1999, pursuant to Security Council resolution 1284 (1999), payment to the escrow account from the proceeds of sale was suspended. The suspension, which was extended for an additional 180 days by the Security Council in its resolution 1302 (2000), was lifted by the Council in its resolution 1330 (2000) in December 2000;

(iii) In May 2003, the Security Council, in its resolution 1483 (2003), requested the Secretary-General to restore funds that had been provided by Member States pursuant to resolution 778 (1992). All such funds were returned in June 2003.

(c) The Security Council, in its resolution 687 (1991), requested the Secretary-General to undertake certain tasks in connection with the situation between Iraq and Kuwait. The costs of those activities were to be considered as an advance, pending the receipt of payments to the Organization by Iraq in respect of certain activities and by Iraq and Kuwait jointly in respect of the costs of the Boundary Commission:

(i) Since the adoption by the Security Council of resolution 778 (1992), the above-mentioned costs have been covered by transfers from the escrow account. Furthermore, the costs of the Special Commission are met by transfer from the escrow account, pursuant to Security Council resolution 986 (1995);

(ii) The Security Council decided in its resolution 1284 (1999) to establish UNMOVIC. The responsibilities mandated to the Special Commission are undertaken by UNMOVIC;

(iii) In its resolutions 1483 (2003) and 1546 (2004) the Security Council reaffirmed its intention to revisit the mandate of UNMOVIC.

Note 4
Independent Inquiry Committee into the United Nations Oil-for-Food Programme

In April 2004, the United Nations Secretary-General appointed a high-level, independent inquiry committee to investigate the administration and management of the oil-for-food programme from its inception to its transfer to the Coalition Provisional Authority, including allegations of fraud and corruption on the part of United Nations officials, personnel and agents, as well as contractors, including entities that had entered into contracts with the United Nations or with Iraq under this programme. On 21 April 2004, in its resolution 1538 (2004), the Security Council welcomed the appointment of the inquiry. The Independent Inquiry Committee completed its investigation and on 27 October 2005 issued its final report.

Effective 1 January 2007, the Independent Inquiry Committee was wound up and the Office of the Independent Inquiry Committee was established for an interim period of two years as part of the Secretariat. During this period, the work of the Office will be performed by the representative designated by the former members of the Independent Inquiry Committee and his or her designees.

The costs of the Independent Inquiry Committee were met from funds for the administrative and operational costs of the programme. Expenditures during the

12-month period ended 31 December 2006 were (in thousands of United States dollars).

Salaries	942.6
Consulting fees	610.4
Travel	71.2
Audit fees	62.5
Communication	51.9
Premises	301.4
Equipment	21.6
Miscellaneous supplies and services	4.7
Local transportation	0.3
Total	**2 066.6**

Note 5
Liabilities for end-of-service benefits

Upon the end of their service, eligible staff members are entitled to be paid for any unused vacation days up to a maximum of 60 days and repatriation benefits based on the number of years of service. Effective the 12-month period ended 31 December 2006, both of these liabilities are recognized in the financial accounts. They are shown as an adjustment to reserves and fund balances in statement I and the corresponding amount is shown as a liability in statement II. Previously, these liabilities were disclosed in the notes to the financial statements.

The total liabilities for unused vacation days and for repatriation benefits have been recorded as of 31 December 2006, and were estimated to be $817,000 and $877,000 respectively (in thousands of United States dollars).

	Unused vacation days	*Repatriation benefits*
Administrative and operational costs	151	196
Monitoring, verification and inspection	657	681
Other activities	9	—
Total	**817**	**877**

Note 6
Operating reserves

"Humanitarian activities in Iraq" account

An operating reserve of $126,660,000 was established as of 31 December 2005 under the "Humanitarian activities in Iraq" account to ensure that sufficient funds are available for the satisfactory resolution of all remaining issues relating to outstanding letters of credit. In a letter dated 10 July 2006 (S/2006/510), the Secretary-General informed the Security Council that until the issues of claims from suppliers were resolved, and if there was no objection from the Council, an amount of $187,000,000 would be held on reserve for any unanticipated claims from

suppliers, also recalling that the United Nations had no indemnification from the Government of Iraq on the funds that had been transferred to date to the Development Fund of Iraq. The Security Council took note of the proposed arrangements in a letter dated 14 August 2006 (S/2006/646) and an operating reserve of $187,000,000 has been established.

"Administrative and operational costs" account

An operating reserve of $21,132,192 was established as of 31 December 2005 under the "Administrative and operational costs" account to meet the expected costs of the Independent Inquiry Committee and the administrative costs of the escrow accounts until all aspects of the programme are completed. Disbursements amounting to $4,094,975 were recorded during the period 1 January-31 December 2006, leaving the reserve at a level of $17,037,217 as of 31 December 2006.

Contingent liabilities described in note 10 will be met from operating reserves of the programme.

Note 7
Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is charged against the current allotment in the year of purchase. The non-expendable property valued at historical cost, according to the cumulative inventory records, is (in thousands of United States dollars).

	2006	*2004*
UNMOVIC	10 763	9 954
Agencies[a]	1 181	2 717
Independent Inquiry Committee	630	837

[a] Owing to the current situation in Iraq, it is not possible to ascertain fully the value of non-expendable property in Iraq as at 31 December 2006.

Note 8
Future modus operandi of the United Nations escrow account established under Security Council resolution 986 (1995)

(a) In its resolution 1483 (2003), adopted on 22 May 2003, the Security Council requested that the Secretary-General continue the exercise of his responsibilities under Council resolutions 1472 (2003) and 1476 (2003) for a period of six months and terminate, in the most cost-effective manner, the ongoing operations of the programme, both at Headquarters and in the field, by 21 November 2003, transferring responsibility for the administration of any remaining activity under the programme to the Authority.

(b) Accordingly, in the three governorates of northern Iraq where the United Nations agencies were implementing the programme, contracts entered into by the agencies were transferred to the Authority. Similarly, in the 15 governorates of central and southern Iraq, where, after the outbreak of hostilities, agencies had been assigned responsibility for procurement activities previously undertaken by the Government of Iraq, uncompleted contracts were handed over to the Authority.

(c) In its resolution 1546 (2004), the Security Council decided that in connection with the dissolution of the Authority, the Interim Government of Iraq and its successors should assume the rights, responsibilities and obligations relating to the programme that were transferred to the Authority, including all operational responsibility for the programme and any obligations undertaken by the Authority in connection with such responsibility, and responsibility for ensuring independently authenticated confirmation that goods had been delivered, and further decided that, following a 120-day transition period from the date of adoption of the resolution, the Interim Government of Iraq and its successors should assume responsibility for certifying delivery of goods under previously prioritized contracts, and that such certification should be deemed to constitute the independent authentication required for the release of funds associated with such contracts, consulting as appropriate to ensure the smooth implementation of those arrangements.

(d) As of 31 December 2006, the liquidation of the programme continued. All obligations relating to contracts that had not been prioritized in accordance with Security Council resolution 1483 (2003) had been closed, except for those where letters of credit had not lapsed. Obligations relating to contracts that had been prioritized remain as liabilities of the programme and the related letters of credit have not been closed. The expiry dates for the letters of credit extend until 2007. In his letters dated 8 August 2005, 17 October 2005, 19 December 2005, 10 July 2006 and 8 December 2006 the Secretary-General kept the Security Council informed of the arrangements for the liquidation of the outstanding letters of credit, and of the slow progress being made. The Security Council took note of the matter and in a letter dated 30 January 2007 (S/2007/47) reaffirmed the importance of promptly finding a final solution to the remaining issues.

(e) Since the adoption of Security Council resolution 1483 (2003), a total amount of $10.225 billion had been transferred to the Development Fund for Iraq up to 31 December 2006. The remaining surplus funds would be returnable to the Development Fund for Iraq in accordance with the provisions of paragraph 17 of Security Council resolution 1483 (2003).

Note 9
Cancellation of letters of credit and related obligations

Further to note 8 (d) describing the status of the outstanding letters of credit, the representatives of the Secretary-General and the Government of Iraq met on 6 March 2007 to discuss arrangements for the cancellation or retention of letters of credit. It was agreed that 55 letters of credit with a value of approximately $226.9 million could, subject to no objection by the Security Council, be cancelled, whereas other letters of credit should be retained for a variety of reasons. The Secretary-General informed the Security Council of the outcome of these discussions in the attachment to his letter of 27 March 2007 (S/2007/241). The Secretary-General intends to cancel the above-mentioned 55 letters of credit and the related obligations in 2007, after receiving confirmation from the concerned vendors that they do not have claims arising from these letters of credit.

Note 10
Contingent liabilities

In accordance with Security Council resolution 1483 (2003), as part of the liquidation process, all claims and disputes involving the United Nations or its agencies with third parties in carrying out the activities of the programme are to be transferred to, and become the responsibility of, the Authority, which has since been succeeded by the Government of Iraq. There may be some circumstances where such a transfer is not possible and any liability and related fees will need to be met from operating reserves of the programme (see note 6).